

THE SMALLER WAR PLANTS CORPORATION

AND THE PROBLEMS OF

SURPLUS PROPERTY

By

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## I. HISTORICAL INTRODUCTION.

### 1. Outline of the Historical Development of the Administration of Surplus Property.

The responsibilities of the Smaller War Plants Corporation with regard to surplus property date from February 19, 1944, when President Roosevelt signed Executive Order No. 9425 establishing a Surplus War Property Administration in the Office of War Mobilization. <sup>1/</sup> William L. Clayton was appointed Administrator on February 21, 1944. To assist the Administrator of the new agency in an advisory capacity, representatives from fourteen other Government agencies were designated by the President to serve as a Surplus War Property Policy Board. These fourteen Government agencies were: The State Department, Treasury Department, War Department, Navy Department, Justice Department, Reconstruction Finance Corporation, Smaller War Plants Corporation, United States Maritime Commission, War Production Board, Bureau of the Budget, War Food Administration, Federal Works Agency, Civil Aeronautics Board, and the Foreign Economic Administration. Mr. Clayton was also appointed Chairman of the Surplus War Property Policy Board.

The magnitude of the surplus property problems stimulated Congress to pass the Surplus Property Act, (Public Law 457 - See Exhibit 1) approved October 3, 1944, described in an earlier section of this history. <sup>2/</sup>

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<sup>1/</sup> Executive Order 9425 establishing the Surplus War Property Administration appears on page 46 of the Eleventh Bimonthly Report of the Smaller War Plants Corporation.

<sup>2/</sup> See pp. 1201ff.

This Act created a Surplus Property Board of three members, to be appointed by the President with the advice and consent of the Senate. This was designed to supersede the arrangements created by Executive Order No. 9425. Mr. Clayton, the Surplus War Property Administrator, was skeptical with respect to the feasibility of the administration of surplus property disposal through a board, and he resigned as Administrator on December 19, 1944.

The Surplus Property Board came into actual existence early in 1945. Ex-Senator Guy M. Gillette of Iowa was appointed Chairman of the Board on January 19, 1945. The other two members of the Board were former Governor Robert A. Hurley of Connecticut and Colonel Edward H. Heller of California. Mr. Gillette resigned on July 14, 1945 and was replaced by W. Stuart Symington as Chairman.

The Surplus Property Board carried out the administration of surplus property activities until September, 1945. At that time, pursuant to recommendations of President Truman, Public Law 181, approved September 18, 1945, abolished the Board and created a new one-man administration. This was known as the Surplus Property Administration, and Mr. Symington was appointed Administrator on October 4, 1945. He is aided in the administration of surplus property problems by several advisory committees and administrative agencies.

The position and responsibilities of the Smaller War Plants Corporation in relation to the disposition of surplus property are covered in the small business section of the Surplus Property Act of



October 3, 1944, and several regulations issued by the Surplus Property Board and the Surplus Property Administration, especially Regulations 2, 5, 7 and 10. The small business section (Section 18) of the Surplus Property Act is generally credited to the efforts of David L. Podell, General Counsel of the Corporation. It authorizes the Corporation itself to purchase, with its top Federal priority, surplus property for resale to small business. It reads as follows:

(a) It shall be the duty of the Board to devise ways and means and prescribe regulations to prevent any discrimination against small business in the disposal and distribution and use of any surplus property.

(b) The Board shall by regulations determine, or provide for the determination, as to all surplus property in the hands of each disposal agency, the size of lots in which, and the areas in which, the various classes of such property should be offered consistently with the usual and customary commercial practice with respect to such class. The available supply of each class in each area shall be disposed of as to give to prospective purchasers, within such area, of any particular amount (not smaller than the smallest lot consistent with such commercial practice) preference (by affording them reasonable opportunity to acquire the desired amount) over prospective purchasers of larger amounts.

(c) The Smaller War Plants Corporation is hereby specifically charged with the responsibility of cooperating with the Board and with the owning and disposal agencies, of making surveys from time to time, and bringing to the attention of the agencies and the Board the needs and requirements of small business and any cases or situations which have resulted in or would effect discrimination against small business in the purchase or acquisition of surplus property by them and in the disposal thereof by the agencies.

(d) The Smaller War Plants Corporation is hereby authorized and directed to consult with small business to obtain full information concerning the needs of small business for surplus property.

(e) The Smaller War Plants Corporation shall have the power to purchase any surplus property for resale, subject to regulations of the Board, to small business (and is empowered to receive other property in exchange as partial or full payment therefor), when in its judgment, such disposition is required to preserve and strengthen the competitive position of small business, or will assist the Corporation in the discharge of the duties and responsibilities imposed upon it. The provisions of subsections (a) and (c) of section 12 shall be applicable to purchases made by the Smaller War Plants Corporation under this subsection.

(f) The Smaller War Plants Corporation is hereby authorized, for the purpose of carrying out the objectives of this section, to make or guarantee loans to small business enterprises and operation of plants and facilities which have been determined to be surplus property, and, in cooperation with the disposal agencies, to arrange for sales of surplus property to small business concerns on credit or time bases. 1/

Surplus Property Board Regulation No. 2 deals with the disposal of surplus personal property to Government agencies, state and local governments. It was originally issued on April 24, 1945, amended on September 21, 1945, and again on November 16, 1945. In its latest amended form, paragraph 8302.5 of this regulation provides:

(b) In order to assist the disposal agencies to reserve quantities of surplus property adequate to satisfy the needs of Government agencies,

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1/ Surplus Property Act of 1944, Section 18.

including the needs of Smaller War Plants Corporation for small business or veterans in accordance with the Surplus Property Act of 1944, and applicable regulations promulgated thereunder, Smaller War Plants Corporation shall advise the disposal agencies from time to time of the quantities and kinds of surplus property which it needs or may need for such purposes, and the disposal agency shall thereupon take such steps as may be necessary to reserve an adequate supply with which to fill such needs. To the end of rapidly adjusting the reserve so established, prospective purchasers shall have the right to inspect the property they wish to buy.

Furthermore, there is a direct expression in 8302.7(d) of the right of SWPC to purchase surplus property for resale to small business, which reads as follows:

....That Smaller War Plants Corporation shall be entitled to acquire any such property from a disposal agency for resale in accordance with the Surplus Property Act of 1944 and applicable regulations of the Surplus Property Administrator.

Regulation No. 5 covers the disposal of surplus non-industrial real property. This regulation was issued on May 21, 1945, and was amended on October 9, 1945. Under the heading of "S 8305.11 Priorities -- (a) Order of Priority," disposal agencies shall recognize the following priorities in disposing of surplus real property:

(1) Government agencies shall be accorded first priority to acquire all classes of surplus real property for their use; Provided, that Smaller War Plants Corporation shall have such priority to acquire any such surplus property for its use and for resale as provided in section 18 (e) of the Surplus Property Act of 1944.

Regulation No. 7 was issued on May 29, 1945, was amended on August 3, 1945, and was further amended on October 10, 1945. (See

Exhibit 2) This regulation is entitled "Preferences for Veterans," and covers the important matter of the disposal of surplus property to veterans. This has been so vital and momentous an issue in the work of the Smaller War Plants Corporation relative to surplus property that it is analyzed in detail later on in this study, and need not be mentioned further at this point.

Regulation No. 10 was issued on September 7, 1945, and deals with the disposal of government-owned industrial real property. It provides a definition of "small business" which reads as follows:

(7) "Small business" shall include any commercial, industrial or manufacturing enterprise, or group of enterprises under common ownership or control, which does not at the date of purchase or lease of industrial real property hereunder have more than five hundred employees, or any commercial, industrial or manufacturing enterprise which by reason of its relative size and position in its industry is certified by Smaller War Plants Corporation, with the approval of the Surplus Property Administrator, to be a small business.

It further provides under Section 8310.11, the following priority for Government agencies and State or local Governments:

(a) Priorities. Government agencies shall be accorded first priority to acquire industrial real property hereunder for their use: Provided, that the Smaller War Plants Corporation shall have such priority to purchase any such property for its use and for resale or lease to small business when in its judgment such disposition is authorized by section 18 (e) of the Act. State or local governments shall be accorded second priority hereunder.

The four types of surplus products and the disposal agencies named to handle them under Executive Order 9425, were as follows:

- (1) Consumer goods - the Treasury Procurement Department; (2) Capital and producer goods - the Reconstruction Finance Corporation;
- (3) Ships and maritime property - the Maritime Commission; and
- (4) Food - the War Food Administration.

On April 25, 1945, the surplus property functions of the Treasury Procurement Department, namely, those relating to consumer goods, were transferred to the Department of Commerce. On November 5, 1945, these functions and responsibilities were, in turn, handed over to the Reconstruction Finance Corporation. At this same time, the War Assets Corporation was established as a subsidiary of the Reconstruction Finance Corporation to administer the surplus program.

## 2. The Creation of the Surplus Property Division in SWPC.

While Chairman Maverick of the Smaller War Plants Corporation, David L. Podell, General Counsel, and other members of SWPC had participated in the discussions relative to the disposal of surplus property from the time Mr. Clayton assumed office as Surplus War Property Administrator, the first steps to create a Division of Surplus Property in the Smaller War Plants Corporation began with the establishment of an Office of Reconversion in SWPC on August 1, 1944. This was set up under General Administrative Order No. 32.

Jesse Robison, Secretary of the Corporation, was requested by the Chairman to develop this new office as Acting Chief. Among the functions of this office were the development of plans relating to reconversion and surplus property, and assisting the Chairman and General Manager in his policy contacts with regard to surplus property with other agencies. Within this office, Leonard W. Ferris was designated Acting Director of the Reconversion Policy Division. Roger W. Stevens was brought over from the War Production Board to develop a program for the disposition of surplus war plants for use as multiple-tenancy projects. In addition, John M. Blair, then special assistant to the Chairman, developed a number of programs relative to the possible activities of the Smaller War Plants Corporation in disposing of surplus property. These were submitted to the Chairman and were the basis of several later operations of the Corporation in this field. Some of these program proposals are attached as Exhibits.

This was the status and set-up of the SWPC organization to handle surplus property when the Surplus Property Board was created by the Surplus Property Act of 1944, approved October 3, 1944. On November 20th, SWPC General Order No. 3 was issued, abolishing the Reconversion Policy Division and creating four new divisions in the Office of Reconversion, one of which was the Surplus Property Division. The direction of the Surplus Property Division remained, however, in the hands of Mr. Robison, as Acting Chief of the Office of Reconversion

until the appointment, in February, 1945, of Bernard Lamb as Chief of the Office of Reconversion. Mr. Lamb had some time before been brought into the Corporation as Deputy Chief of this office. Mr. Lamb, like his predecessor, retained direct supervision over the Surplus Property Division, assisted, at the start, by two section heads -- Leslie F. Young for capital goods, and Roger B. Stevens for industrial plants. Later, two other section heads were added -- Matthew Wells for consumer goods and Fred Hawkins for raw materials. On April 6, 1945, the Division was given its first Acting Director when Mr. Lamb appointed William D. McFarlane to supervise it.

On June 26, 1945, the Surplus Property Division of SWPC was transferred from the Office of Reconversion to the Bureau of Operations under M. Rea Paul, Chief of that Bureau. Its organization and personnel remained unchanged for the time being. In December, 1945, E. F. Kinnaird was made Director of the Division of Surplus Property, and Mr. McFarlane became special assistant to the Chairman.

3. Operational Relations of SWPC with Other Surplus Property Disposal Agencies.

At the first meeting of the Surplus War Property Policy Board, held March 2, 1944, with Administrator W. L. Clayton presiding, Chairman Maury Maverick and General Counsel David L. Podell attended as representatives of the Smaller War Plants Corporation. In the course of the discussion, Mr. Maverick

requested assurance that large amounts of property would not be sold for foreign consumption, and that small business would be given first chance to buy it. Administrator Clayton assured him that, as property was declared surplus, small business would be given "reasonable preference" in acquiring it.

This interagency board continued to meet weekly, and, on April 8, 1944, a Surplus Property Committee was appointed in the Smaller War Plants Corporation under General Administrative Order No.23, as a unit of the Readjustment and Contract Termination Staff. Mr. Podell served as Chairman of the first Committee meeting on April 14th. At his suggestion, an executive committee and four subcommittees were appointed to study the disposal of the above-mentioned four types of surplus property designated under Executive Order 9425.

During the period before the issuance of Regulation 2, various discussions were held between members of the Surplus Property Division of SWPC and representatives of the Surplus Property Board, the RFC and Treasury Procurement, with a view to developing procedures that would enable SWPC to fulfill the obligations placed upon it in the Surplus Property Act of 1944. Two basic understandings were reached: (1) Applications for priority purchases by veterans and small business men would be processed by the field offices of the Smaller War Plants Corporation; (2 ) Liaison officers of SWPC would be appointed to operate in the



regional offices of RFC and Treasury Procurement, charged with the responsibility of finding the property which the applications called for.

The Surplus Property Board approved the suggestion of SWPC that small business should have preference in buying surplus property immediately after the needs of non-profit institutions had been satisfied. This action was accepted by the RFC and Treasury Procurement, but on April 25, 1945, the surplus property functions relating to consumer goods, originally assigned to Treasury Procurement, were transferred to the Department of Commerce.

The first four months of operation under Regulation 7, dealing with preferential treatment of veterans, were fraught with many difficulties when efforts were made to put the program into actual operation. Between the first of July and the middle of October, 1945, 62,918 applications for surplus property were registered by veterans in the 100 odd district offices of SWPC, but only 4,881 sales were made. In other words, only 3 per cent of the applicants got the property they wanted.

The operations under Regulation 2 was even less successful in its provision authorizing the SWPC to use its priority, under certain conditions, to purchase surplus property for small business men. Of 10,078 applications, only 769, or approximately 2 per cent, resulted in sales.

The shortage of surplus items of the kind that the applicants desired was mainly responsible for the small percentage of sales in relation to the number of applications. Surplus declarations were slow during the first month, or six weeks, after the end of the war. Another complicating factor, however, was the overwhelming number of applications by veterans for automotive equipment. In some offices, the staffs were unable to handle all the applicants.

Another stumbling block was the failure of SWPC and the disposal agencies -- mainly the Department of Commerce -- to place the same interpretation on the Surplus Property Act and SPB Regulation 2. This regulation stipulated a priority period of 18 days, during which Federal agencies were permitted to acquire surplus property without other competition.

The disposal agencies complained that the priority period was seriously impeding the sale of surplus, and maintained that it was unworkable. Moreover, the complaining agencies pointed to Section 2 (n) of the Surplus Property Act, which designated that "normal channels of trade" should be utilized "to the extent consistent with efficient and economic distribution and the promotion of the general objectives of this act." They maintained that the priority purchase of surplus property by SWPC for resale to veterans was not in accordance with the law.

The various surplus property problems were all dumped into the lap of W. Stuart Symington, who was appointed Chairman of the Surplus

Property Board on July 15, 1945, replacing Mr. Gillette. On September 21st, he brought about a revision of Regulation 2, which abolished the priority period and instructed the disposal agencies to establish a pool or reserve of surplus property to meet the needs of a specified group of preferred buyers, which included SWPC.

After the revision of Regulation 2, other changes followed rapidly. On October 1, 1945, the Surplus Property Board was replaced by the Surplus Property Administration (Public Law 181), (approved September 18, 1945). As Administrator, Mr. Symington was given sole authority to promulgate regulations and order for the new agency.

On October 10, 1945, SPB Regulation 7 was replaced by SPA Regulation 7. This lifted the \$2,500 limitation on veterans' purchases and authorized one initial purchase of a stock of property for resale. Veterans were also allowed to buy cars and other equipment which they were required to own by the nature of their employment. These revisions had the approval of the veterans associations, including the American Legion and the VFW, but still complaints were rife, owing to the scarcity of those surplus items which were chiefly in demand.

One of the most important facts developed during this period was the need for closer cooperation between SWPC and the Office of Surplus Property in the Department of Commerce. The result was the signing of an agreement between the two agencies, on October 17, 1945.

whereby each agency designated an employee in its Washington central office to serve as a liaison officer in all matters relating to the other agency. (See Exhibit 15) Comparable officers were also designated by the Department of Commerce in each of its regional offices, and SWPC named an officer, known as the SWPC Regional Specialist, to work with the Department of Commerce representative.

Another step taken in an effort to improve the operation of the surplus program came on November 5, 1945, when the Office of Surplus Property in the Department of Commerce was transferred to RFC. All obligations of the agency, including the agreement with SWPC, continued unaffected by this change. A new agency, the War Assets Corporation, was created as a subsidiary of the RFC and given the responsibility of handling the expanded surplus program.

## II. THE EXPERIENCE AND ACCOMPLISHMENTS OF THE SMALLER WAR PLANTS CORPORATION IN HANDLING THE PROBLEMS OF SURPLUS PROPERTY.

### 1. The Planning Stage.

The work of the Smaller War Plants Corporation on surplus property falls roughly into three stages -- the planning stage, the programming stage, and the operations stage. In the planning stage, which fell mainly between March, 1944, and April, 1945, a great deal of thought was given by various officials of the Corporation to the development of general policies. Essentially, the period was one of formulating broad plans and developing general objectives with respect to the role of the Corporation in handling surplus property.

The second stage was devoted to translating these general plans or objectives into actual programs to be carried out by the central and field offices of the Corporation. This stage may be said to have been promoted chiefly during the first six months of the year 1945.

The final or operations stage, which began around the middle of '45 and continues up through the present time, is that of the day-to-day work by the Corporation under its various surplus property programs.

The role which the SWPC should play in the disposition of surplus property was subject to a great deal of discussion and debate within the Corporation long before the Surplus Property Act was passed. At one extreme, were those who held that the Corporation should purchase surplus property and should then resell it on favorable terms to small business. They urged that the Corporation should establish its own warehouses, its own distributing points, and its own policies of sale. The proponents of this ambitious program held that the disposal agencies were sure to neglect small business in the disposition of surplus property, in the same way that the military procurement agencies had neglected small business in the distribution of war contracts. Some of the officials who held this position had been with the Corporation for a considerable time and had come into sharp conflict with the military agencies in the field of war procurements. They no longer believed that an immense operating agency, such

as the military agencies had been and the disposal agencies would be, could ever be influenced by "recommendations, certifications, notifications" and the other manifestations of an indirect pressure type of approach, to be exercised by the SWPC. Rather, they contended, the entire history of SWPC experience in trying to deal with the Army and Navy Departments conclusively demonstrated the necessity for the Corporation to set up a more or less independent program. They suggested that the Corporation should buy up large amounts of surplus property wherever it could, using whatever powers it was able to acquire, and then sell this property directly to small business.

At the other extreme, were those in the Corporation who maintained that the extensive disposition of surplus property was not a task suited to the functions and personnel of the Smaller War Plants Corporation. According to this viewpoint, if the Corporation was to do anything under the Surplus Property Act, it should confine itself mainly to reporting to the disposal agencies any cases of discrimination against small business which came to its attention. It should also inform small businesses as to which disposal agency handled the several different types of surplus property. But beyond these two functions of reporting on discriminations and notifying as to appropriate disposal agencies the Corporation should not go.

Between these two extremes, planning gradually became crystalized around a number of more specific objectives. The first

extreme was discarded not only because of the administrative difficulties in carrying it out, but because Mr. Maverick had made it clear in his presentation of the Corporation policies, when the surplus property legislation was being considered, that the Corporation was not anticipating entry into any large buying and selling program. That is, it would never enter into any extensive warehousing activities. This was brought out at the hearings before the Surplus Property Subcommittee of the Senate Military Affairs Committee. In fact, the priority granted to the Corporation was, to some extent, conditioned on the assurance that the Corporation would not become an "Army-Navy store". Administratively, it was obvious that any program of vast purchases and resale of surplus property to small business would merely duplicate the functions already being exercised by the existing disposal agencies.

The other extreme -- that of a minimum program -- was discarded because it was not enough to serve the real needs of small business, and also because it would not satisfy the obligations imposed on the Corporation by the Surplus Property Act. Merely to report cases of discrimination would be analagous to locking the door after the horse had been stolen. If the Corporation confined itself solely to this type of program, it would always be operating after the fact. Furthermore, there existed a serioud doubt as to whether any remedial action would ever be taken after the cases of discrimination had been reported.

If the Corporation was not to follow either one of these two extreme policies with respect to surplus property what, then, was it to do? How could it operate most efficiently for small business with such personnel as it had? We cannot emphasize too strongly the fact that the various surplus property plans advanced within the Corporation were all predicated on the assumption that the Corporation might receive only limited additional funds and personnel with which to carry out any specific program. In general, this assumption proved correct.

On October 3, 1944, as we have seen, the Surplus Property Act became law. It contained certain provision in Section 18 relating to small business and granting certain specific and comprehensive powers to the SWPC. These powers had not been in the original draft of the bill, but were inserted after Mr. Maverick had made a very vigorous and effective presentation of the case for small business and the SWPC before Congress. All of the powers which Mr. Maverick requested was granted in the Act. 1/

Shortly after the Act was passed, the General Counsel of the Corporation, Mr. David L. Podell, who had laid the groundwork for Section 18 and developed its underlying philosophy, stated in a memorandum of October 19, 1944, that,

"Summarizing our duties under the Act, it may be said that they are as follows:

1. We must make surveys to determine the needs of small business.

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1/ See Page 1276 ff.



2. We must watch the actual operations closely to see that surpluses are equitably distributed and that small business gets its fair share without discrimination.
3. Where necessary we are empowered to purchase for resale to small business.
4. We may clearly finance the acquisition of plants and machinery and facilities.
5. In cooperation with the agencies, we may finance sales of other surpluses to small business."

The General Counsel went on to add that "It is important to note that our functions and duties extend to all small business and all types of surplus."

These, then, were the powers granted to the Corporation. How could the Corporation be most effective in exercising these powers on behalf of small business?

This question was the subject of much discussion and many meetings within the Corporation during the next three months. These discussions culminated in a number of memoranda on the subject prepared by different officials within the Corporation. The first of these memoranda was one prepared by John M. Blair, special assistant to the Chairman, and mimeographed for circulation on October 23, 1944. In this memorandum he suggested four programs which might be followed by the SWPC: (See Exhibit 3) (not included because of insufficient copies)

- a. Locating surplus property for small business;

- b. Providing loans for the acquisition of surplus property;
- c. Assisting small business in determining its needs for surplus property;
- d. Purchasing surplus property for resale, lease or rental to small business.

Concerning the first, Mr. Blair stated that, since a basic need of small business in the surplus property field is that of locating the specific type of item wanted, the Corporation should put into effect a "locating" or "finding" program. Naturally, the Corporation could not very well use its powers to help a small business man in acquiring a surplus item until he had found it. Specifically, the SWPC, under this type of program, would first obtain from small businesses, descriptions of the specific types of surplus items desired; it would then try to locate those items in the records of surplus property of the disposal agencies, and, finally, it would notify the small business man where the item was to be found.

In regard to loans, this memorandum advanced the thought that Congress apparently intended the Corporation to be very liberal in granting loans on surplus property, since the powers granted to the Corporation in this respect were extremely comprehensive and specific. The memorandum raised a number of questions, however, which needed to be answered before a loan program could be adopted, such as:

1. Should the policy on loans be more liberal on machinery which is modern, new or little used and highly efficient, than on machinery

which is old and nearly worn out and of low efficiency?

2. Should the loan policy be more lenient in the case of those applicants who require a relatively large amount of surplus property than in the case of those who only buy one or a small number of items?
3. Should the Corporation acquire used property turned in by small business as a partial payment for surplus property?

In the third place, the memorandum proposed that the Corporation should send its engineers into plants of individual small businesses to survey their equipment and to suggest the acquisition of those types of surplus property which would most certainly improve the efficiency of the plant.

Finally, the memorandum pointed out that, if the Corporation did adopt any program of purchase of surplus property for resale to small businesses on any widespread scale, it could put such program into effect only after:

1. Field surveys of the demand for specific types of surplus properties were conducted,
2. The problem of warehousing was settled,
3. Decisions were made on the general questions of the terms and conditions of the disposal of the surplus properties acquired, including the question of credit and trade-in.

In short, Mr. Blair strongly urged that the Corporation should immediately help small business to locate the surplus items which it wanted, that the Corporation should speedily decide its policies on

loans for surplus property, that these policies should be as liberal as possible, that SWPC should use its engineers to help small businesses to determine which types of surplus plant equipment would best improve their efficiency, and that, if any program of purchase and resale were adopted, answers to the many policy questions relating to such a program should be quickly provided.

This memorandum was shortly followed by a similar type of broad-scale planning document issued by the General Counsel, Mr. Podell, on October 19, 1945. (See Exhibit 4) 1/

In his memorandum, Podell stressed, first, the necessity of conducting such surveys as were implied in the Act on the needs and requirements of small businesses for surplus property. Mr. Podell emphasized that "In this connection, it is important to bear in mind that these surveys are a prominent part of our functions under the Surplus Property Act."

He stated, second, that a widespread program of publicity should be put into effect notifying small business of our ability to help them in acquiring surplus property.

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1/ Although the Podell memorandum is dated earlier than the Blair memorandum, October 19th as against October 23rd, a preliminary draft of the Blair memorandum had been submitted several weeks previously and is referred to in the Podell report.

Third, he advised against any comprehensive program of purchase and resale of surplus property, stating that, "There is reasonable ground for believing that that would be contrary to the intention of the Congress."

Fourth, he urged that the Corporation devote a large part of its efforts to utilizing the tremendous abundance of surplus tools and machinery in order to modernize small plants. He suggested that SWPC try to locate surplus machine tools for small business, that SWPC engineers advise small business as to the best types of surplus facilities to acquire for their particular businesses, and that particularly SWPC should make surveys of the needs of small plants for machine tools. On each of these latter three points, he endorsed the proposals advanced in the previously-cited Blair memorandum.

In the field of consumer goods, Mr. Podell held that the Corporation should pursue a fairly cautious policy. He stated that "It is particularly in these (consumer goods) fields that we may be called upon to exercise our priorities. Needless to say, we are not called upon to serve every corner grocery shop or every tailor shop. We should follow the policy, as far as possible, of dealing through established channels of trade in relation to the sale of consumer goods. At least, in this field, we should avoid catering to the consumer. The job would probably be impossible in any event."

On the subject of government war plants, Mr. Podell stated that, in the case of small plants suitable for purchase by small business, the SWPC would probably have as its chief problem that of negotiating and adequately financing the acquisition of the plant upon proper terms. He also stated that, in regard to the large plants, the multiple tenancy idea should continue to be promoted. 1/

A third planning document was presented by Leonard Ferris, who was Acting Director of the Reconversion Policy Division under the Office of Reconversion, which had been established on August 1, 1944. (See Exhibit 5) Mr. Ferris recommended, first, that surveys be undertaken by the SWPC to determine not only the needs and requirements of small business for surplus property, but also the extent to which small business was experiencing discrimination or other types of difficulties in obtaining surplus property. He also urged that a consulting program be put into effect, whereby the SWPC would consult with small business on various aspects of the surplus property problem. He thought that, "The consulting activity (should) be approached very gingerly" and that "all authority" over the consulting program should be centered in a Washington staff, in order to prevent confusion which would inevitably develop in each region

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1/ The multiple tenancy plan is discussed elsewhere in this chapter. See page 1309 ff.

and district were left to develop its own type of consulting activity. Finally, Mr. Ferris declared:

To summarize it would seem that you need in Washington a Surplus Property Director with three main units operating under him:

1. A top liaison staff, which would bring the problems of small business in obtaining surplus property to the attention of the disposal agencies and of the Surplus Property Board.
2. A survey staff.
3. A consulting staff.

He (the Chairman) will also ultimately have a small organization to buy and sell surplus property. It is to be observed that this unit, when established, will be primarily under the control of the Board of Directors.

The survey staff must have a field organization responsible to it, the size and scope of which will have to be determined by experts. The consulting staff should endeavor to operate through existing personnel until such time as its functions have become more clearly defined.

From these various memoranda, as well as from numerous meetings and discussions held on this subject, there emerge from this planning stage the following seven fairly well-defined, broad objectives in dealing with the complex problem of surplus property.

1. The Corporation should certainly make surveys, from time to time, of the needs and requirements of small business for surplus property.

2. It should endeavor to help small businesses, particularly small plants, in locating the surplus property they require.

3. It should use its priority purchasing power only to a limited extent, and should do this only where the use of this power would clearly and definitely help maintain the "competitive position of small business."

4. It should not adopt any ambitious program in the consumer goods field because of the limited permanent value to small business which would result.

5. It should use its engineering staff to the fullest extent possible for the purpose of advising small producers as to which types of equipment and facilities, available out of surplus, would best contribute to their efficient operations.

6. It should help small businesses in buying government-owned plants. It should, where necessary, advance credit and, if needed, exercise its priority power to obtain the plant and then resell it to the small business.



7. It should promote the multiple tenancy program for large government-owned plants which are too large for sale to individual small businesses.

These, then, became the general objectives of the Corporation. The next step was that of developing specific programs to put them into effect.

## 2. The Programming Stage.

In this second stage or phase of the Corporation's work on surplus property specific programs were promulgated to accomplish the seven objectives developed during the planning stage. As we have noted, the programming stage may, roughly, be said to have occupied the Corporation's attention during the first half of 1945. Although not all of the general objectives were crystalized into programs -- the most conspicuous exception being the proposal to make available engineering advice to small plant operators -- nonetheless, complete and detailed programs were developed on:

- A. Locating Surplus Property.
- B. Making Critical Machine Tools Accessible to Small Business.
- C. Multiple Tenancy.
- D. Statistics.

A. Locating Surplus Property.

The mechanics of the "locating" or "search" program were fairly simple. The consisted first of finding out from small business exactly what surplus items were wanted; second, sending descriptions of such items to a SWPC liaison man in the field offices of the disposal agencies; and, third, notifying the small business man, after the search had been completed, where the requested items were located. The small business man could then make a personal inspection of the surplus property, and later decide whether or not he wished to purchase it. If so, the SWPC could provide further assistance either by granting him a loan or by purchasing the item for him.

It was also hoped that an arrangement could be worked out with the disposal agencies to "freeze" the item for the small business men, thus preventing its sale before he had a chance to inspect it.

A further suggestion was that, in cases where the surplus item requested was located at a considerable distance from the small business man's community, the SWPC might have an engineering inspection made of the property involved and then transmit this engineering report back to the small business man. The purpose of this was to prevent the small business man from having

to make long trips to inspect properties which any adequate engineering appraisal would indicate at once to be unsuited to his needs. 1/

In putting this search program into effect, forms were prepared for submission to the Bureau of the Budget; flow charts were drawn outlining each step in the program; the Budget Bureau was requested to grant the Corporation personnel to serve as the SWPC Liaison Specialists in the disposal agencies; and, at the yearly spring meeting of the Regional Directors, the entire search program was described in great detail.

The Budget Bureau granted its approval to all of the forms involved in the program. These were, first, a questionnaire form (SWPC Form 60 - See Exhibit 7) in which the applicant would list the various types of surplus property which he wanted; second, a so-called "Operating Document"

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1/ Memoranda. The first memoranda describing the ways in which this search program might be carried out are attached as Exhibit 6. The use of the term "machine tools" in these memoranda was only for illustrative purposes, as it was thought that the program could be used for practically all types of surplus property.

(SWPC Forms 61 & 63 - See Exhibits 8 & 9) which were small forms made up for each of the items requested, these forms to be sent to the Liaison Specialist in the disposal agency; and, third, a notification from (SWPC Form 64 - See Exhibit 10) which informed the small business man where the property he requested was located.

The Budget Bureau allocated to the SWPC enough positions to place one -- but only one -- Liaison Specialist in each of the various field offices of the disposal agencies -- some thirty-one in the case of RFC, and twelve in the case of the Commerce Department.

With the forms approved and a minimum amount of personnel allocated, the Corporation began actual operations in executing the search programs. This search procedure became the basic SWPC program on surplus property and is in operation today, without substantial modification. 1/

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1/ This program is now in the process of being simplified so that the operating document -- the form 61 -- can serve the purpose of the notification document -- the form 64. The Liaison Specialist will merely note on the bottom of the new form 61 where the item is located and send the document back to the applicant, thus eliminating one form and simplifying the program.

B. The Machine Tool Program.

From the very first, interest in the Corporation concerning the possibility of helping small manufacturing concerns to acquire critically important government-owned machine tools was high. The government owns nearly seventy-five per cent of the most modern and efficient machine tools in the United States -- some five hundred thousand tools scattered throughout the country.

From 1940 to the beginning of the year 1945, the value of machine tool production was approximately \$4,000,000,000. In the twenty years preceding 1940, the total value of machine-tool production was about half that of these four years. This represents a jump from an average pre-war production value of a hundred million dollars annually to a war-time production of one billion dollars annually, a ten-fold increase.

There is, therefore, a tremendous supply of machine tools owned by the government, a large proportion of which are highly suitable to small plants. Moreover, the average machine tool is small, relatively mobile, and represents a comparatively small capital investment. The average cost of a standard machine

tool is approximately \$4,400. These factors make possible a program of selling tools individually or in small lots, as the opportunity to put them into production arises. They are very well adapted to supply the requirements of those small businesses whose facilities are limited.

On the demand side of the picture, the need for a machine tool program is even more pronounced. Almost three-fourths of the approximately 827,000 machine tools in use in 1940 are now over fourteen years old. 1

A fairly large proportion of these tools are more than thirty years old -- these are to be found mainly in small plants. Small business desperately needs to improve its own efficiency in order to compete with big business in the post-war world. These government-owned tools would introduce the faster feeds, deeper cuts, and closer tolerances which have been developed by the machine tool industry in recent years, and are essential for efficient operation of contemporary production activities.

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1/ Source -- Department of Justice, release, April 24, 1945.

Small business itself is very eager to acquire these government-owned tools and would purchase a large proportion of them, if provided with the opportunity. This was indicated by a spot survey of small metal-working firms conducted in Wayne County, Michigan (Detroit), by the Smaller War Plants Corporation in October, 1944. It was found that:

1. About 71 per cent of the plants surveyed intended to acquire machine tools for post-war production; 61 per cent will want surplus government-owned tools.
2. Plants which plan to acquire machine tools expect to purchase an average of eight tools each.
3. Some 67 per cent of plants planning to acquire machine tools would like to turn in an average of seven used tools on their purchases.
4. More than half of the plants who want government-owned tools expect to obtain loans or to make deferred payments.
5. 46 per cent of the plants which expect to obtain loans, plan to seek credit from a government agency.
6. Relatively few government-owned tools are now in small plants.

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7. Less than two-thirds of the plant officials knew of the Government's price formula. <sup>1/</sup>

There, thus, existed not only a great supply of machine tools but also an active demand for them by small plants. For these reasons, the disposal of machine tools to small plants was generally conceded to be something which the SWPC should undertake with expedition and resolution. The Attorney General, for example, in a report dated April 24, 1945, stated that the disposal of these tools was "Probably the most important of all the 'first' things in the reconversion program from the point of view of employment and the production of civilian goods."

In its program to meet this situation, the SWPC decided, in effect, to "go out" to small plants, find out from them what types of machine tools they wanted, and then locate the tools for them. After this was done, the Corporation could further assist the small plants, either through credit or through the exercise of its priority purchase power.

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<sup>1/</sup> These small plants surveyed were those employing less than five hundred wage earners. The results of the survey are presented in Exhibit 11.



This plan was very similar to the "Search Program" as described above, with this important difference. In the case of the ordinary search program, the SWPC waited for the small business men to come into its district offices and file an application. In the case of machine tools, the Smaller War Plants Corporation mailed out the application form directly to all small metal-working firms. Special form SWPC 60s (See exhibit 12) was devised for this purpose, and approval of it was obtained from the Budget Bureau. In July, 1945, all regional and district managers were sent brief instructions as to the procedure to be followed in handling this special survey. (See Exhibit 13)

In August, copies of the form 60s were mailed to all small metal-working firms -- numbering some 35,000. The small firms were to list their needs and then return the form to their nearest SWPC District Office. The District Office would, in turn, prepare an operating document -- a form 61 -- for each type of machine tool requested. These would then be sent to the Liaison Specialist who

would then notify the small plants where the requested tools were located. The program thus fitted neatly into the existing "Search Program" and had every prospect of being one of the most successful ever undertaken by the Corporation.

C. Multiple Industrial Tenancy.

Multiple Industrial Tenancy was advanced by the Smaller War Plants Corporation as a means of helping small businesses to gain some benefits out of the large, government-owned war plants. Under Multiple Industrial Tenancy, the space in the large plant is leased or rented out to a number of different businesses. The operator of the plant derives revenue from his leasing operations and from the services which he supplies to the tenants. Since a considerable proportion of the government-owned plants are too large for acquisition by a single small business, Multiple Tenancy appears to be the most advantageous plan that could possibly be put into effect to enable small business to acquire needed new plants.

In the summer of 1944, the Smaller War Plants Corporation sent two engineers into the field to investigate the practicality of the Multiple Tenancy

operation. They visited certain privately-owned plants which, for years, had been operated successfully on a Multiple Tenancy basis, -- such as the Bush Terminal Company of New York. They also visited a number of government-owned plants to determine the extent to which they might be suitable for this type of program.

Using their findings as a basis for discussion, Mr. Maverick made a speech on Multiple Tenancy in Portland, Oregon, on July 17, 1944. Excerpts from this speech follow:

Specifically, Multiple Tenancy means the subdivision and rental of space in the plants to a number of different, independently-owned small plants or businesses. There can be a few or many different types of businesses of varying sizes, operating in the same large plant. Each can produce different types of goods.

The Smaller War Plants Corporation recently investigated a number of plants in which this Multiple Rental Plan is now working. Seven plants were investigated by the SWPC. Three were constructed by private capital for the specific purpose of renting space to small firms, at a profit; Bush Terminal Company, New York Dock Company, and the Starret-Lehigh Company.

The advantages of the Multiple Rental System are:

Speed. The plants can be put into operation much more quickly by this method than by any other, since they will be filled up progressively, as one small business after another moves into the plant.

Locally owned. Businesses operating in the plants will be locally or regionally owned.

Diversification. The plan attempts to secure communities from the evil effects of one-industry or one-big-plant-depression, where practically all employees are thrown out of work at once.

Labor. Of benefit to labor is the fact that the specified skills of a wide variety of types of labor will be used under Multiple Tenancy.

Local Banking. Local banking and financial institutions would be strengthened. Multiple Tenancy would lead to the existence of a large number of separate pay rools, as well as corporate and individual banking accounts.

Raw Materials. The plan would increase the use of locally produced raw materials. The small businesses within the plant would generally find it desirable to use nearby sources of raw materials, because of their lower freight costs.

Local markets. Under the Multiple Rental Plan, the local markets would be served to a relatively greater extent by local sources of production and relatively less by centralized sources located in distant areas. 1/

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1/ For a more detailed treatment of Multiple Industrial Tenancy, see pages 1374 ff.

This speech was followed four months later on October 23, 1944, by the publication of a report, "Multiple Industrial Tenancy", prepared by the Office of Reconversion of the Smaller War Plants Corporation. In this report, an estimate was made of the extent to which government-owned plants were suitable for Multiple Industrial Tenancy. Of the 1,339 government-owned plants, representing an area of 426,900,000 square feet, 471 plants, representing 35 per cent of the number and accounting for 31 per cent of the total area, were considered to be physically well suited to Multiple Tenancy operations. At the other extreme, were 500 government-owned plants, representing 37 per cent of the total number, and comprising 45 per cent of the area, which were considered to be unsuitable from a physical standpoint for Multiple Tenancy. In between these two extremes were 368 plants which might be suitable to Multiple Tenancy Operation, but had one or more physical characteristics which would limit the types of industry to which they could be adapted.

This report was mailed out widely throughout the United States, especially to local business and banking groups. Copies were sent to 80 state planning

agencies and to members of the council of state governments. The Committee for Economic Development distributed 2,500 copies of the report to its local committees, together with a letter endorsing the program; the National Association of Real Estate Boards endorsed the program and distributed 950 copies of the pamphlet to its local boards and associations; the U. S. Chamber of Commerce distributed 1,700 copies of the pamphlet to its local chambers and endorsed the program in a letter to them. These are only a few of the business groups that endorsed the Multiple Tenancy Program, as developed by the Smaller War Plants Corporation.

The next step was the preparation of a specific means of putting this program into effect. This took the form of a suggested regulation to be adopted by the Surplus Property Board, which was prepared by the Corporation. It outlined, in detail, the way in which Multiple Tenancy might be established in government-owned plants. Although the suggested regulation was never adopted by the Board, it does show that the Corporation had worked out a solution of the major problems involved in the program. A copy of this

suggested Surplus Property Board regulation is attached as Exhibit 14.

D. The Statistics Program.

The fourth program which the Smaller War Plants Corporation developed on Surplus Property was a Statistics Program. When the Budget Bureau eliminated the centralized Tabulating Unit of the Corporation -- as described in the chapter on the History of the Office of Reports -- it became necessary for the Office of Reports to develop a complete system of decentralized field reporting on the Corporation's own programs.

Under this system, registers were established at district and regional offices, on which the field operating personnel of the Corporation was to keep a daily record of its activities. Monthly summaries from these registers would then be compiled by each of the fourteen regions, and submitted for central tabulation and analysis by the Office of Reports.

Specific procedures to accomplish this objective were sent to all regional and district offices by the Office of Reports in August and September, 1944.

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If the field offices had followed these statistical procedures, the Corporation would have had a regular monthly record of the number of applications for surplus property, the types of surplus property requested, the types of industry in which the applicant was engaged or planned to enter, the number of notifications as to the location of surplus property, and the number of sales to applicants actually completed. Such a statistical record would, of course, have been invaluable in presenting and assessing the accomplishments of the Corporation.

Unfortunately, these procedures have never been carried out, except in part by a few of the regional offices. The main reason for this neglect of the elementary matter of record-keeping is discussed in the following section of the report.



### 3. The Operations Stage.

From the very inception of the Office of Reconversion, the Corporation was forced to give immediate consideration to the operating policies then substantially in effect in the disposal agencies, such as the Reconstruction Finance Corporation and the Treasury Department. The Treasury Department, particularly, was disposing of surplus consumer goods and developing a program for very large scale operations upon a basis which the Corporation questioned.

One of these operating policies of the Treasury was that of granting discounts to large buyers. The Corporation felt that the law especially directed the disposal agencies not to favor large businesses or large buyers. On the contrary, if any favoritism was to be shown, it should be shown to small businesses. The Corporation, therefore, advocated that, to the greatest extent possible, consumer goods be sold at fixed prices and that the same price be granted to all producers at any given level of the distributive structure. In other words, small and large wholesalers were to pay the same price; the same would apply to small and large retailers, but a higher price might be charged to retailers than to wholesalers. The Corporation also urged, as a primary operating policy, that all goods offered be broken down into small lots, so that the small buyer would have an equal opportunity with the large purchaser.

Policies such as these at first met with opposition at the Treasury. The Corporation found it necessary, on a number of occasions, to prevent proposed sales of large quantities of consumer items to large buyers, in order to provide an opportunity for small buyers

to obtain their equitable share. Later, however, the situation was worked out on a more satisfactory basis.

In the formulation of policies in the consumer goods fields, Mr. Robison asked for the assistance of Walter Grosscup, Chairman of the Board of Governors of the Philadelphia Regional Office and Managing Director of Lit Brothers, a large department store in Philadelphia. Mr. Grosscup, despite his association with big business, had previously given full evidence of his interest in the welfare of small business. In addition to a number of personal conferences, Mr. Grosscup, at one stage, brought down several of his ablest merchandising assistants, who spent several days with the members of the Staff of the Office of Reconversion in developing disposal policies.

In addition to the two basic policies referred to above, the following principles were also adopted by the Corporation:

The Government should not favor and should avoid, if possible, resales of merchandise, branded or unbranded, back to the original manufacturer of such merchandise. It was held that such action would lead to a number of abuses such as the withholding of goods from the market, presumably to assure the production of new goods; it would lead to narrow instead of wide distribution, as directed by the law; and it might allow the manufacturer a second profit in addition to the profit on the original sale to the Government. The Corporation admitted an exception to this policy only in those cases where perishable goods were involved, such

as films or drugs, or where only reconditioning by the original manufacturer could assure the conversion of the item to a useful and satisfactory condition.

In all disposals, main emphasis should be placed on sales to distributors, particularly wholesalers, since this would eliminate the heavy additional expense of a direct distribution to a vastly larger number of retailers.

Chain store and mail order concerns, despite their size and though they carry out certain wholesaling functions, should be considered retailers, and the prices to them, when graduated prices are in effect, should be those of a retail level.

With particular regard to machine tools, it was clear that a program could be activated too soon if the field representatives of the Corporation solicited machine tool orders from small plants and urged them to dispose of obsolete machinery, on the assumption that they would immediately be replaced with more modern machinery. An order was issued from the Office of Reconversion to the field agent not to press this program at the beginning, since a large volume of inquiries could only result in a large number of disappointments, and the Corporation would be condemned for having inaugurated a program which it could not carry out. Field agents were directed not to ignore the program but, rather, to work on it "casually" until the volume of machine tools declared surplus was large enough to assure substantial satisfaction of small plant demands.

The action of the War and Navy Departments, as well as the Reconstruction Finance Corporation, in the earlier days of the Surplus Property Disposal Program, in withholding machine tools, completely justified these precautions then taken by the Corporation.

Actual operations by the Smaller War Plants Corporation on surplus property began about the middle of 1945. Before any of the above programs could be put into effect, however, some sort of sanction or approval had to be obtained from the Surplus Property Board. It will be recalled that certain of the powers granted to the Corporation in the Surplus Property Act are "subject to the regulations of the (Surplus Property) Board".

The first indication of such approval was contained in a letter of March 15, 1945, from Chairman Guy F. Gillette of the Surplus Property Board to Maury Maverick, Chairman of SWPC. Part of his letter represented approval of the so-called "search" program and part described the procedure to be followed in cases where the SWPC exercises its priority purchase power. The former part of his letter reads as follows:

Smaller War Plants Corporation will establish a liaison office which will be located in the Regional Offices of the various disposal agencies. The small business interested in surplus property will be advised through the local offices of the Smaller War Plants Corporation to submit their requirements in detail, specifying in a commercial manner the items they require and indicating the prices which they are prepared to pay. Such requests will be channeled to the liaison officer of the relevant disposal agency.

Disposal agencies will sell items as are available in their stock to fill these requests, provided that the quantity and prices are in accord with their general sales procedures.

The other part of Mr. Gillette's letter referred to the procedure to be followed in cases where the small business man requires the SWPC to exercise its priority purchase power on his behalf:

Smaller War Plants is desirous of obtaining preference for its clients to induce them to use the facilities which they are offered. This preference would give small business the goods in case of a tie. In other words, where the ordinary trade and Smaller War Plants both bid for an item, the Smaller War Plants client would receive preference under like conditions. Smaller War Plants Corporation is agreeable that its preference shall be applied after priorities including non-profit institutions.

Officials of the Department of Commerce were unwilling to accept the decision of the Surplus Property Board with no more authority to support it than Mr. Gillette's letter to Mr. Maverick. Consequently, on May 24, 1945, Mr. Gillette, wrote identical letters to the Director of the Surplus Property Division of RFC, and to the corresponding official in the Department of Commerce. This was the text of the letter:

This Board has reached an informal understanding with the Smaller War Plants Corporation on a program to be used in carrying out some of the small business provisions of the act. This program will in due course be expressed in the form of definite regulations.

There are two main features of this program:

1. The establishment of representatives of the SWPC in each of the regional offices of the major disposal agencies;

2. A preference to purchase in favor of small business buyers designated by Smaller War Plants Corporation, following the preference in favor of non-profit institutions.

In this letter, Mr. Gillette thus again expressed approval of the "Search" program by approving the establishment of SWPC liaison officers in the disposal agencies. And, he again stated that, where the SWPC exercised its priority powers on behalf of small business, it should be given a preference.

This latter feature was formalized in Surplus Property Board Regulation 2, issued on April 24, 1945. This regulation set aside a priority period of 18 days during which Federal Agencies were given the privilege of acquiring surplus without other competition. The SWPC was authorized to purchase property under its priority for resale to small business when, in its judgment, such disposition was required "to preserve and strengthen the competitive position of small business".

With the approval given for a search program, with its priority purchase power approved, with its forms approved and with a limited personnel approved by the Budget Bureau, the Corporation appeared to be in an excellent position toward the middle of 1945 to really help

small business in acquiring surplus property. Operations could now actually begin.

But just as operations started to get under way, the Corporation accepted the responsibility of making effective the preferential right granted to veterans in the Surplus Property Act. This new responsibility was to bring great new duties on the Corporation and, by its magnitude, to cause less attention to be given to previously planned programs. There was, however, one positive achievement of moment. The Corporation exercised its priority to prevent the General Electric Company from taking over a large plant in Allentown, Pennsylvania.

All of the programs developed by the Corporation had been based upon Section 18 of the Surplus Property Act - the "Small Business" section. In the development of these programs, it was thought that veterans would be treated as small business men, if they were, in fact, setting up or reopening a business of their own. But Section 16 of the Surplus Property Act grants a special preferential right to veterans. It reads as follows:

The Board shall prescribe regulations to effectuate the objectives of this Act to aid veterans to establish and maintain their own small business, professional, or agricultural enterprises, by affording veterans suitable preferences to the extent feasible and consistent with the policies of this Act in the acquisition of the types of surplus property useful in such enterprises. 1/

The Corporation undertook to make this right effective by using its own priority power granted under Section 18, to purchase

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1/ Section 16 of the Surplus Property Act of 1944, Public Law 457, See Exhibit 1.

surplus property for every veteran who wanted it for business purposes, including professional and agricultural purposes. In short, the power of the Corporation to purchase surplus property for resale to small business, in Section 18, was adopted as a means of making effective the preference granted to veterans in Section 16. This was done when the Corporation did not even have sufficient personnel to put into effect the program developed under Section 18.

On May 29th, Surplus Property Board Regulation 7 was issued assigning to the Smaller War Plants Corporation the function of handling requests of veterans for surplus property, the regulation to become effective on July first. A vast mass of applications from veterans -- reaching as high as five thousand a day -- were soon coming in at all district and regional offices. District Offices were, in actual fact, stampeded by men just discharged from the Army and Navy, seeking principally cars, trucks and jeeps. The office staffs were unable to handle all the applicants.

Actually, only a few of the thousands of applications by veterans for motor vehicles have been satisfied. The principal reason for this has been the shortage of motor vehicles of the specific types wanted by veterans. Although a good many trucks have been declared surplus, only a comparatively small number of them have been of the types desired by veterans. This is shown clearly as a result of a "freeze" order issued on September 25, 1945, by the Department of Commerce, deferring all sales to dealers for a ten-day period, and making the period one "for veterans only". This order fell short of satisfying the total veteran demand for



motor vehicles. But what is most revealing is the fact that, of the 11,570 trucks made available to veterans during this period, only about 20% of the trucks were of the types that the veterans wanted. Most of the trucks were too heavy, and many others were not even in condition to be operated at all.

But, regardless of the fact that its inability to supply the demand, was no fault of its own, the Corporation had, nonetheless, accepted a tremendous task and had to do its best to meet the acute situation. Nearly all of the regional offices tried to operate in the way which seemed most efficient to them. Centralized control over field operations, for the time being, suffered. The long lines of veterans which daily confronted district and regional managers had a more profound effect upon the operations of these field officials than could any directives or orders issued from Washington.

With hundreds, and sometimes thousands of veterans waiting in line, the field officials did what it was natural for them to do; they concentrated on the job of processing veterans' applications. The search program for small business men, other than veterans, had to give way for the moment in the rush of veterans' inquiries. The machine tool survey, which had been mailed out in August to 35,000 small metal working firms in the country, became lost under stacks of veterans' applications in the district offices.

On August 8, 1945, the Office of Reports described the situation in the following memorandum:

As of September 27th, no reports on the machine tool program have been received from 7

of the 14 regional offices, namely, Philadelphia, Atlanta, Cleveland, Los Angeles, Chicago, Dallas and Minneapolis. Every regional office report submitted appeared to have too small a number of 60-s tabulated. New York reported only 29. In this case a teletype brought the subsequent report that, actually, a far larger number had been received by the district offices, but the bulk of them had not been forwarded to the regional office. As important a district office as the Chicago office transmitted no forms whatever.

During all of this time, veteran organizations and veterans, individually, complained loudly over their inability to obtain motor vehicles and other surplus equipment under the provisions of Surplus Property Board Regulation 7. They also criticized the provision which restricted them solely to applying for property to be used for the establishment or maintenance of their own small business, professional or agricultural enterprises. In addition, they protested the provision which limited their purchasing up to \$2,500 and prevented them from buying surplus items for resale.

Some immediate and practical solution was demanded for this situation. The Corporation attempted to meet the problem in two ways: It sought more personnel from the Budget Bureau, and it set about devising ways and means of simplifying and streamlining Surplus Property Board Regulations 2 and 7. On both fronts it met with some measure of success.

During the quarter, July-September, 1945, the Corporation received some 75,000 applications from veterans for surplus property. The veterans wanted, on the average, 2.5 items each. About half of these items were of such a nature that a search by the Corporation among the files of the disposal agencies might result in the loca-

tion of the item. The Corporation thus did its best in that quarter to locate some 90,000 items for veterans. It did this with its already available personnel until the middle of the quarter, when 189 positions were received from the Budget Bureau and the Surplus Property Administration. This number was totally inadequate.

During the next quarter, October-December, 1945, the Corporation received some 175,000 applications from veterans for surplus property. But in this quarter, with the change of Surplus Property Regulation 7, permitting purchase of one initial stock of goods for resale, the number of items requested per veteran rose to an average of around 3.5. The task of trying to find about half of these items -- i.e., those suitable for searching -- represented a workload of some 300,000 items. To search for this vast number of items, to interview the veterans, and to handle the avalanche of applications the Corporation obtained from the Surplus Property Administration and the Budget Bureau, some 825 positions, only about one-third of whom were interviewers, the remainder being typinc and clerical personnel. However, these 825 were not obtained until November 15th-- the middle of the quarter.

On the other front, the Acting General Counsel of the Corporation, Joseph Kaufman, and the Chief of the Operations Bureau, M. Rae Paul, worked out with the Surplus Property Board, a series of changes in Regulations 2 and 7. The combined effect of these revisions was to change the old regulations in the following ways:

1. The former priority period totalling 30 days for the preferred groups has been eliminated.

2. In place of the priority, the rights of the preferred groups -- which are government agencies (including SWPC for resale to small business, state and local governments, and veterans) -- to purchase surplus property are to be protected by the establishment of special reserves. These reserves are to be based upon experience and demonstrated demands. Under this reserve program, the surplus items requested by the small business man or veterans will be sought first in the reserves and, if they are not there, will be sought in the general supply.
3. The right of inspection of surplus property is definitely established for the preferred group. Since many surplus items, particularly motor vehicles and machine tools, are in poor physical condition, this is an important gain.
4. The preferred groups are granted the right to purchase surplus property at the lowest price to which it is offered at any trade level. Thus, if the veteran buys directly from the government, he does not pay the dealer mark-ups. The \$2,500 limitation on purchases for veterans under Regulation 7 was eliminated; veterans entering retail businesses are allowed to buy an initial stock of goods for resale -- a right previously denied; veterans are

permitted to buy automotive and other equipment required by their employment; and credit may be extended to the veteran under terms and conditions established by the disposal agency. These changes became effective when Regulation 2 was revised on September 21, 1945, and Regulation 7 was revised on October 10, 1945.

The Corporation is now in the process of changing its own operations to conform with the new regulations and, to increase its effectiveness for both veterans and small business men. First, it is in the process of setting up the machinery to establish the reserves, described above. Second, it is changing its operating procedures so that the Corporation will perform the search functions only for items for which reserves are established.

Items which are really important to small businesses and veterans and are requested in large quantities, such as machine tools and light trucks, will thus be put in the reserves, and the Corporation will search for them. On other items, the applicant will have to search for himself. A veteran will, however, be given a certificate which entitles him to the price concessions, described above.

A further simplification is to be the use of the veteran application form as his certification, thus eliminating the preparation of separate "operating documents" (Form SWPC-61) for each item on the application.

Under the new regulation, a veteran is supposed at the outset, to attempt to obtain credit from the disposal agency which

sells directly to him. If, however, the disposal agency does not grant such credit, the veteran may return to the Smaller War Plants Corporation, which may then treat him as a small business man, that is, it may, provided that it can make the statutory determination of necessity, purchase the item for him, and resell it to him on an installment basis.

The major effect of these changes, it is hoped, will be to concentrate the Corporation's efforts on the truly important items in surplus property; to shift the function of first granting or refusing credit for veterans to the disposal agency; and to free some of the Corporation's personnel to assist small businesses which do not happen to be veterans.

### III. CONCLUSION.

In conclusion, it may be said that, during the planning stage, the Corporation developed plans which were designed principally to contribute to the permanent well-being of small business. It followed a careful middle-course between acting as another disposal agency, on one hand, and doing nothing, on the other.

In the programming stage it developed four basic programs -- the search program, the machine tool program, the statistics program and the multiple-industrial tenancy program. In actual operation, the first three suffered because of the magnitude of the veterans' program. The fourth, multiple-industrial tenancy, was largely eliminated when SWPC was unable to convince the Bureau of the Budget of the need for personnel. The Budget Bureau approved to the Corporation one position to assist small business in matters

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relating to government-owned industrial plants.

The elimination of these programs developed for small business by the ever rising flood of veterans' applications raises the question of responsibility. To be sure, the fact that the veterans wanted surplus property for the purpose of starting a small business linked their needs to the general aims and purposes of the Corporation. But, as pointed out above, the section in the Surplus Property Act relating to veterans, Section 16, is very different from Section 18 which relates specifically to small business and imposes specific responsibilities upon the SWPC.

The management of the Corporation apparently thought that, in undertaking to execute Section 16, it would immediately, or at least in a very short period of time, obtain the full personnel necessary to execute the task. Although operations on the veterans' program began on July 1, 1945, no substantial number of positions to handle the veterans' program was received until the middle of November, when 825 were allocated -- an altogether inadequate number, as events proved. The Corporation, itself, must bear its part of the responsibility for this belated action, since it did not make its request for any large number of positions until October, when, even then, it requested only 900 positions for the veterans' program.

Therefore, not only did the Corporation act late; it also failed to request enough positions to handle adequately and competently the veterans' program which would have freed the Corporation's remaining personnel to work on its own small business programs.

But this may be explained, in part, by the fact that, in the early

months of the veterans' program, no one knew how many veterans would actually seek surplus property, and, thus, no one really knew how many positions would be required. Now that the needs are known, the Corporation plans to request from the Surplus Property Administration and the Budget Bureau sufficient personnel to administer the veterans' program. If this request is met, the Corporation would then be able to make its basic surplus property program far more effective.

In short, the Corporation now hopes that, with the changes described above, it will soon be able to have in operation an effective search program for a limited number of items important to small business men and veterans, that it will be able to revive the machine tool and multiple-industrial tenancy programs, and that it will be able to keep adequate statistics on its surplus program. This, then, is the hope of the Corporation for the future in the realm of surplus property.



## EXHIBITS

1. Surplus Property Act of 1944, Public Law 457.
2. Surplus Property Regulation No. 7.
3. Suggested Programs of the SWPC on Surplus Property, submitted by John M. Blair on October 23, 1944.
4. Memorandum re Surplus Disposal, submitted by David Podell on October 19, 1945.
5. Memorandum on Surplus Property, submitted by Leonard W. Ferris on December 15, 1944.
6. Suggested program on Surplus Property - Machine Tools, submitted by John M. Blair on December 15, 1944, and Recommendations on Surplus Property, submitted by John M. Blair on November 30, 1944.
7. SWPC Form 60, Small Business Inquiry for Government Owned Surplus Property, Machine Tools or Equipment.
8. SWPC-61, Surplus Machine Tools and Equipment Inquiry Card.
9. SWPC-63, Surplus Consumer Goods or Materials Inquiry Card.
10. SWPC-64, Notification of Surplus Property Available.
11. The Potential Demand for Surplus Government-Owned Tools by Small Plants, Test Survey Conducted in Wayne County, Michigan, October, 1944.
12. SWPC 60-S, Small Business Inquiry for Government Owned Surplus Property, Machine Tools or Equipment.
13. Instructions for Machine Tool Survey, dated July 16, 1945.
14. Suggested regulation on Disposal Policies for Surplus Industrial Plants, submitted by Roger B. Stevens on December 20, 1944.
15. Working Agreement between the Office of Surplus Property, Department of Commerce, and the Smaller War Plants Corporation, dated October 17, 1945.